

**THE HONG KONG PHILHARMONIC  
SOCIETY LIMITED**

**REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 MARCH 2011**

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED  
REPORT AND FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2011**

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## THE HONG KONG PHILHARMONIC SOCIETY LIMITED REPORT OF THE BOARD OF GOVERNORS

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The Governors have pleasure in submitting their annual report together with the audited financial statements of The Hong Kong Philharmonic Society Limited (the "Society") for the year ended 31 March 2011.

### PRINCIPAL ACTIVITIES

The principal activities of the Society are to manage and develop the Hong Kong Philharmonic Orchestra, to present public concerts and to promote the appreciation of music in Hong Kong.

### FINANCIAL STATEMENTS

The results of the Society for the year ended 31 March 2011 and the state of the Society's affairs as at that date are set out in the financial statements on pages 5 and 6 respectively.

Movements in funds of the Society are set out in the statement of changes in funds on page 7.

### PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Society are set out in note 10 to the financial statements.

### GOVERNORS

The Governors during the financial year and up to the date of this report were:

#### Elected by Voting Members

Mrs. Janice Choi Kwan Wing Kum	(appointed on 28 October 2010)
Mr. David Fried	(appointed on 28 October 2010)
Mr. Peter Kilgour	(appointed on 28 October 2010)
Mr. Peter Lo	(appointed on 28 October 2010)
Mr. Daniel Ng Yat-chiu	
Mr. Stephan Spurr	
Mr. Liu Yuen Sung	
Dr. Lilian Leong, BBS, JP	
Mr. Glenn Fok	
Mr. Nicholas Robert Sallnow-Smith	
Mr. Jack So Chak Kwong, JP	
Sir David Tang, KBE	
Ms. Winnie Chiu Wing Kwan	
Ms. Joanne Chan Jo Win	
Mr. Chung Shui-ming, GBS, JP	(resigned on 28 October 2010)

#### Appointed by the Secretary for Home Affairs

Mrs. Michelle Ong Cheung	(resigned on 28 October 2010)
Mr. Lam Woon Kwong, GBS, JP	
Prof. Liu Ching Chih	
Mr. Benedict Sin Nga Yan	
Mr. Kenny Wong Kam Shan	
Mr. David Zacharias	
Prof. Daniel Chua	(appointed on 28 October 2010)

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED  
REPORT OF THE BOARD OF GOVERNORS**

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(Continued)

**GOVERNORS (Continued)**

In accordance with Articles 56 and 57 of the Articles of Association of the Society, all Governors appointed by Government of the Hong Kong Special Administrative Region shall serve for a two-year term and no Governor may serve in excess of a maximum period of six consecutive years. In 2010, no Governor was due to retire under the six-year rule.

**BOARD OF GOVERNORS' INTERESTS**

During the year, under a sponsorship agreement, the Swire Group Charitable Trust ("the Swire Trust") contributed a donation amounted to HK\$12,750,000 to the Society. As part of the agreement, the Swire Trust nominated a representative, Mr. Peter Kilgour, to be elected to the Society's Board of Governors. Mr. Peter Kilgour is a director of Swire Pacific Limited, which is the major contributor to the Swire Trust.

Except as disclosed above, there were no contracts of significant to which the Society was a party and in which a Society's Board of Governors member had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.


**MANAGEMENT CONTRACTS**

No contracts concerning the management and administration of the whole or any substantial part of the business of the Society were entered into or existed during the year.

**AUDITOR**

Crowe Horwath (HK) CPA Limited retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Crowe Horwath (HK) CPA Limited as auditors of the Society is to be proposed at the forthcoming annual general meeting.

On behalf of the Board of Governors



Chairman  
Hong Kong, 14 September 2011

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
THE HONG KONG PHILHARMONIC SOCIETY LIMITED**

(Incorporated in Hong Kong and limited by guarantee and not having a share capital)

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We have audited the financial statements of The Hong Kong Philharmonic Society Limited (the "Society") set out on pages 5 to 23, which comprise the balance sheet as at 31 March 2011, and the statement of income and expenditure, statement of changes in funds and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Board of Governors' responsibility for the financial statements**

The Board of Governors is responsible for the preparation of financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the Board of Governors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Governors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF  
THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
(Incorporated in Hong Kong and limited by guarantee and not having a share capital)

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(Continued)

**Opinion**

In our opinion, the financial statements give a true and fair view of the state of the Society's affairs as at 31 March 2011 and of its surplus and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

*Crowe Horwath (HK) CPA Limited*

Crowe Horwath (HK) CPA Limited  
Certified Public Accountants  
Hong Kong, 14 September 2011

Lam Cheung Shing  
Practising Certificate Number P03552

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
**STATEMENT OF INCOME AND EXPENDITURE**  
**FOR THE YEAR ENDED 31 MARCH 2011**

	<u>Note</u>	<u>2011</u> HK\$	<u>2010</u> HK\$
<b>Income</b>			
Recurrent government subvention	4		
- Consolidated grant		58,800,000	58,800,000
- Outbound cultural exchange	15	1,700,729	-
Venue partnership scheme	15	2,163,255	1,780,169
Swire projects	15	12,750,000	12,500,000
Revenue from musical events		19,530,125	16,663,070
Fund raising activities and sponsors' contributions		16,316,988	14,428,306
Interest income		20	4
Advertisements		1,209,915	1,058,885
Income from recordings		6,489	6,622
Miscellaneous income		418,031	1,389,032
		<u>112,895,552</u>	<u>106,626,088</u>
<b>Expenditure</b>			
Concert expenses	5	83,798,730	74,920,812
Marketing and audience development expenses	6	7,437,750	7,375,272
Sponsorship and fund raising activities		3,026,475	1,973,178
Education and outreach expenses		966,382	718,824
Administrative and general expenses	7	15,399,679	15,478,128
		<u>(110,629,016)</u>	<u>(100,466,214)</u>
Surplus for the year		<u>2,266,536</u>	<u>6,159,874</u>

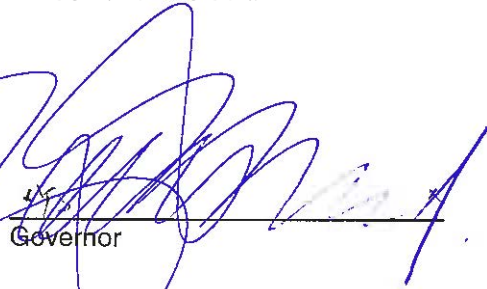
The accompanying notes form part of these financial statements.

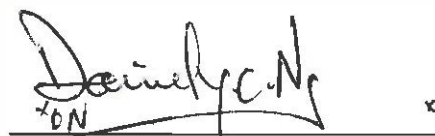
**THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
**BALANCE SHEET**  
**AS AT 31 MARCH 2011**

	<u>Note</u>	<u>2011</u> HK\$	<u>2010</u> HK\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	1,988,541	2,426,423
<b>Current assets</b>			
Accounts and other receivables	11	9,120,077	10,631,950
Amount due from the Hong Kong Philharmonic Endowment Trust	16	181,760	-
Cash and cash equivalents	12	12,487,332	8,624,878
		<u>21,789,169</u>	<u>19,256,828</u>
<b>Total assets</b>		<u>23,777,710</u>	<u>21,683,251</u>
<b>FUNDS</b>			
Accumulated surplus		14,781,245	12,519,463
Young audience fund	13	<u>95,501</u>	<u>90,747</u>
<b>Total funds</b>		14,876,746	12,610,210
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accruals and other payables	14	7,301,693	6,067,376
Deferred income	15	1,599,271	2,187,425
Amount due to the Hong Kong Philharmonic Endowment Trust	16	-	818,240
<b>Total liabilities</b>		<u>8,900,964</u>	<u>9,073,041</u>
<b>Total funds and liabilities</b>		<u>23,777,710</u>	<u>21,683,251</u>

Approved and authorised for issue by the Board of Governors on 14 September 2011

On behalf of the board

  
 \_\_\_\_\_  
 Governor

  
 \_\_\_\_\_  
 Governor

The accompanying notes form part of these financial statements.



**THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
**STATEMENT OF CHANGES IN FUNDS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

	<u>Accumulated surplus</u>	<u>Young Audience Fund (note 13)</u>	<u>Total</u>
	HK\$	HK\$	HK\$
Balance at 1 April 2009	6,369,157	81,179	6,450,336
Transfer from the accumulated surplus	(9,568)	9,568	-
Surplus for the year	<u>6,159,874</u>	<u>-</u>	<u>6,159,874</u>
Balance at 31 March 2010 and 1 April 2010	12,519,463	90,747	12,610,210
Transfer from the accumulated surplus	(4,754)	4,754	-
Surplus for the year	<u>2,266,536</u>	<u>-</u>	<u>2,266,536</u>
Balance at 31 March 2011	<u>14,781,245</u>	<u>95,501</u>	<u>14,876,746</u>

The accompanying notes form part of these financial statements.

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

	<u>Note</u>	<u>2011</u> HK\$	<u>2010</u> HK\$
<b>Operating activities</b>			
Surplus for the year		2,266,536	6,159,874
Adjustments for:			
Interest income		(20)	(4)
Depreciation		1,148,760	650,772
		<u>3,415,276</u>	<u>6,810,642</u>
<b>Changes in working capital</b>			
Decrease/(increase) in accounts and other receivables		1,511,873	(4,054,910)
Increase/(decrease) in accruals and other payables		1,234,317	(1,256,913)
(Decrease)/increase in deferred income		(588,154)	1,495,661
Decrease in amount due to the Hong Kong Philharmonic Endowment Trust		(1,000,000)	(33,862)
		<u>1,158,036</u>	<u>(3,850,024)</u>
Net cash generated from operating activities		4,573,312	2,960,618
<b>Investing activities</b>			
Interest received		20	4
Purchase of property, plant and equipment		(710,878)	(448,336)
Net cash used in investing activities		<u>(710,858)</u>	<u>(448,332)</u>
<b>Net increase in cash and cash equivalents</b>		3,862,454	2,512,286
<b>Cash and cash equivalents at beginning of the year</b>		<u>8,624,878</u>	<u>6,112,592</u>
<b>Cash and cash equivalents at end of the year</b>	12	<u>12,487,332</u>	<u>8,624,878</u>

The accompanying notes form part of these financial statements.

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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**1. GENERAL INFORMATION**

The Hong Kong Philharmonic Society Limited (the "Society") is engaged in managing and developing the Hong Kong Philharmonic Orchestra, to present public concerts and to promote the appreciation of music in Hong Kong.

The Society is incorporated in Hong Kong under the Hong Kong Companies Ordinance and is limited by guarantee. The address of its registered office is Level 8, Administration Building, Hong Kong Cultural Centre, 10 Salisbury Road, Tsim Sha Tsui, Kowloon.

Under the provisions of the Society's Memorandum and Articles of Association, every voting member shall, in the event of the Society being wound up, contribute to the assets of the Society to the extent of HK\$10. **At 31 March 2011, the Society had 27 members (2010: 24) members.**

These financial statements are presented in Hong Kong dollars which is the same as functional currency of the Society.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. A summary of the significant accounting policies adopted by the Society is set out below.

The HKICPA has issued certain amendments and interpretations which are or have become effective. It has also issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Society. Note 3 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Society for the current and prior accounting periods reflected in these financial statements.

**b) Basis of preparation of the financial statements**

The measurement basis used in the preparation of the financial statements is historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities not readily apparent from other sources. Actual results may differ from these estimates.

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**b) Basis of preparation of the financial statements (Continued)**

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 20.

**c) Property, plant and equipment**

Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and accumulate of impairment losses (see note 2(e)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net proceeds on disposal and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Furniture, fixtures and equipment	5 years
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Both the useful life of an asset and its residual value, if any, are reviewed annually.

If the residual value of an asset increases to an amount equal to or greater than the asset's carrying amount, the asset's depreciation charge is zero until its residual value subsequently decreases to an amount below the asset's carrying amount.

**d) Operating lease charges**

Leases where substantially all the rewards and risk of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payables under such operating leases are accounted for in the statement of income and expenditure on a straight-line basis over the periods of the respective leases.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Impairment of assets

i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Society about the loss events e.g. significant financial difficulty of the debtor; and a breach of contract. If any such evidence exists, any impairment loss is determined and recognised as follows:

- For receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the statement of income and expenditure. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Society is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the property, plant and equipment may be impaired, an impairment loss previously recognised no longer exists or may have decreased.

If any such indication exists, the asset's recoverable amount is estimated. In addition, the recoverable amount is estimated annually whether or not there is any indication of impairment.

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**e) Impairment of assets (Continued)**

**ii) Impairment of other assets (Continued)**

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in the statement of income and expenditure whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

In respect of assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the statement of income and expenditure in the year in which the reversals are recognised.

**f) Accounts and other receivables**

Accounts and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment losses for bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment losses for bad and doubtful debts (see note 2(e)).

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**g) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

**h) Employee benefits**

Short term employee benefits and contributions to defined contribution plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to the Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the statement of income and expenditure when incurred.

**i) Other payables**

Other payables are initially measured at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

**j) Revenue recognition**

Provided it is probable that the economic benefits will flow to the Society and the revenue and the costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

**i) Recurrent government subvention**

Recurrent government subvention approved for the year is recognised on an accrual basis.

**ii) Specific subventions and contributions from government or sponsors**

Specific subventions and contributions from the Government or sponsors, which are earmarked for specific purposes, are recognised at their fair value when there is a reasonable assurance that the Society will comply with the conditions attaching to them and that the amount will be received. These incomes relating to costs are deferred and recognised in the statement of income and expenditure over the period necessary to match them with the costs that they are intended to compensate.

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**j) Revenue recognition (Continued)**

iii) Income from recordings

Income from recordings, musical events, fund raising activities and advertisements are recognised when the event take place. For income received for future periods, they are recorded as receipts in advance in the balance sheet.

iv) Sponsors' contributions

Sponsors' contributions are recognised when the right to received payments is established.

v) Interest income

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

vi) Service income

Revenue from sale of services is recognised when the services are rendered.

vii) Miscellaneous income

Miscellaneous income is recognised on an accrual basis.

**k) Foreign currencies translation**

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the foreign exchange rates ruling at the year end date. Exchange gains and losses are recognised in the statement of income and expenditure. Non-monetary assets and liabilities that are measured in terms of historical cost in foreign currencies are translated at the foreign exchange rates ruling at the transaction dates.

**l) Related parties**

For the purpose of these financial statements, parties are considered to be related to the Society if:

- i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Society or exercise significant influence over the Society in making financial and operating policy decisions, or has joint control over the Society;
- ii) the Society and the party are subject to common control;
- iii) the party is an associate of the Society or a joint venture in which the Society is a venturer;



**THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

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**2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**l) Related parties (Continued)**

- iv) the party is a member of key management personnel of the Society or the Society's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence or such individuals;
- v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- vi) the party is a post-employment benefit plan which is for the benefit of employees of the Society or of any entity that is a related party of the Society.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

**m) Provisions and contingent liabilities**

Provisions are recognised for other liabilities of uncertain timing or amount when the Society has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

**3. CHANGE IN ACCOUNTING POLICIES**

The HKICPA has issued a number of new and revised HKFRSs and interpretations that are first effective or available for early adoption for the current accounting period of the Society.

The application of the new and revised standards, amendments or interpretations had no material impact on the results and the financial position of the Society.

**4. RECURRENT GOVERNMENT SUBVENTION**

The government subvention is for the promotion and development of classical music in Hong Kong by implementing programme of activities proposed by the Society.

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

**5. CONCERT EXPENSES**

	<u>2011</u> HK\$	<u>2010</u> HK\$
Salaries and allowances of musicians	42,911,473	42,311,809
Pension costs for musicians	968,277	970,199
Benefits for musicians (medical and employee compensation)	631,951	651,115
Musical instruments insurance	202,387	184,149
Insurance (lorry and others)	70,154	95,399
Passages (airfares for overseas players)	766,916	607,958
Hotel accommodation for new overseas players	50,557	15,420
Auditioning and recruitment	1,051,218	189,741
Broadcasting	249,244	203,615
Salaries, allowances and benefits for		
- music director/artistic director/principal conductor/resident conductor	7,336,395	7,579,775
- guest artists	13,907,709	9,445,145
Fees of augmentation/freelance players	1,975,921	1,972,487
Hire of halls	5,788,558	5,415,876
Transportation of players	47,855	18,653
Transportation of instruments	69,739	82,338
Transportation of artists	93,300	58,355
Hire/repairs/maintenance of instruments	281,940	262,288
Music hire and arrangement	555,963	515,022
Sundries for orchestra	321,704	206,058
Musical instruments and scores	94,338	125,530
Stage design and setting fee	2,271,002	2,139,970
Sound	1,219,128	1,452,488
Fee paid to CASH	-	12,038
Musical instruments depreciation (note 10)	885,936	405,384
Touring expenses	2,047,065	-
	<u>83,798,730</u>	<u>74,920,812</u>

**6. MARKETING AND AUDIENCE DEVELOPMENT EXPENSES**

	<u>2011</u> HK\$	<u>2010</u> HK\$
Posters and pamphlets	938,466	903,590
Programmes	999,508	832,213
Press advertisements	2,499,519	2,701,396
Photography	199,175	347,818
Other expenses	63,555	35,704
Subscription costs	611,230	570,813
Web development and maintenance	368,531	499,409
Public relations and audience development	337,025	190,885
Direct mailing	208,358	199,644
Ticketing cost	823,201	759,637
Ticket commission	389,182	334,163
	<u>7,437,750</u>	<u>7,375,272</u>

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
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**7. ADMINISTRATIVE AND GENERAL EXPENSES**

	<u>2011</u> HK\$	<u>2010</u> HK\$
Salaries of office staff	11,625,889	12,727,606
Pension costs for office staff	326,008	364,055
Benefits (medical insurance) for office staff	236,852	203,769
Operating lease rentals for office premises and workshop	1,192,356	1,081,259
Postage, stationery, fax and telephone	305,148	310,582
Utilities and sundry expenses	222,586	216,576
Repairs and maintenance	139,451	73,519
Local travelling	19,551	11,378
Overseas travelling	10,279	102,184
Professional fees	338,442	92,127
Recruitment of staff	671,571	14,807
Entertainment	48,722	34,878
Depreciation (note 10)	<u>262,824</u>	<u>245,388</u>
	<u>15,399,679</u>	<u>15,478,128</u>

**8. TAXATION**

The Society, being a registered charitable organization, is exempted from Hong Kong profits tax under Section 88 of the Hong Kong Inland Revenue Ordinance.

**9. BOARD OF GOVERNORS MEMBERS' EMOLUMENTS (EQUIVALENTS TO KEY MANAGEMENT COMPENSATION)**

None of the members of the Board of Governors, who are considered as key management of the Society, received any fees or emoluments in respect of their services to the Society during the year (2010: Nil).

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**10. PROPERTY, PLANT AND EQUIPMENT**

	Furniture, fixtures and equipment HK\$
<b>Cost</b>	
At 1 April 2009	4,989,411
Additions	<u>448,336</u>
At 31 March 2010 and 1 April 2010	5,437,747
Additions	<u>710,878</u>
At 31 March 2011	<u>6,148,625</u>
<b>Accumulated depreciation</b>	
At 1 April 2009	2,360,552
Charge for the year	<u>650,772</u>
At 31 March 2010 and 1 April 2010	3,011,324
Charge for the year	<u>1,148,760</u>
At 31 March 2011	<u>4,160,084</u>
<b>Carrying amount</b>	
At 31 March 2011	<u>1,988,541</u>
At 31 March 2010	<u>2,426,423</u>

Depreciation charges of HK\$885,936 and HK\$262,824 (2010: HK\$405,384 and HK\$245,388) have been expensed and included in concert expenses (note 5) and administrative and general expenses (note 7) respectively.

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**11. ACCOUNTS AND OTHER RECEIVABLES**

	<u>2011</u> HK\$	<u>2010</u> HK\$
Accounts receivable	4,665,573	5,337,568
Other receivables	<u>641,254</u>	<u>1,139,312</u>
Loans and receivables	5,306,827	6,476,880
Prepayments	<u>3,813,250</u>	<u>4,155,070</u>
	<u>9,120,077</u>	<u>10,631,950</u>

The ageing analysis of accounts receivable that are neither individually nor collectively considered to be impaired are as follows:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Neither past due nor impaired	4,238,600	3,680,600
Past due but not impaired	200,240	1,656,968
Less than 1 month past due	58,888	-
1 to 3 months past due	<u>167,845</u>	<u>-</u>
	<u>4,665,573</u>	<u>5,337,568</u>

Receivables that were neither past due nor impaired relate to a wide range of donors, sponsors and ticket income receivables for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent donors or sponsors that have a good track record with the Society. Based on past experience, the Board of Governors believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Society does not hold any collateral over these balances.

**12. CASH AND CASH EQUIVALENTS**

	<u>2011</u> HK\$	<u>2010</u> HK\$
Cash at banks and on hand	<u>12,487,332</u>	<u>8,624,878</u>
Cash and cash equivalents in the balance sheet and the statement of cash flows	<u>12,487,332</u>	<u>8,624,878</u>

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**13. YOUNG AUDIENCE FUND**

	<u>2011</u> HK\$	<u>2010</u> HK\$
Balance brought forward	90,747	81,179
Transfer from the accumulated surplus	<u>4,754</u>	<u>9,568</u>
Balance carried forward	<u>95,501</u>	<u>90,747</u>

The Young Audience Fund is a programme to enhance and develop musical interest and talent of the youth. The funding of this reserve is set aside from accumulated surplus.

**14. ACCRUALS AND OTHER PAYABLES**

	<u>2011</u> HK\$	<u>2010</u> HK\$
Accruals	1,272,015	908,701
Other payables	<u>3,139,922</u>	<u>2,721,486</u>
Financial liabilities measured at amortised cost	4,411,937	3,630,187
Receipts in advance	<u>2,889,756</u>	<u>2,437,189</u>
	<u>7,301,693</u>	<u>6,067,376</u>

**15. DEFERRED INCOME**

	<u>Outbound cultural exchange</u> HK\$	<u>Venue partnership scheme</u>	<u>Swire projects</u> HK\$	<u>Total</u> HK\$
At 1 April 2009	-	391,764	300,000	691,764
Government subventions	1,500,000	1,775,830	-	3,275,830
Other subventions	-	-	12,500,000	12,500,000
Credited to the statement of income and expenditure	<u>-</u>	<u>(1,780,169)</u>	<u>(12,500,000)</u>	<u>(14,280,169)</u>
At 31 March 2010 and 1 April 2010	1,500,000	387,425	300,000	2,187,425
Government subventions	1,500,000	1,775,830	-	3,275,830
Other subventions	-	-	12,750,000	12,750,000
Credited to the statement of income and expenditure	<u>(1,700,729)</u>	<u>(2,163,255)</u>	<u>(12,750,000)</u>	<u>(16,613,984)</u>
At 31 March 2011	<u>1,299,271</u>	<u>-</u>	<u>300,000</u>	<u>1,599,271</u>

**16. AMOUNT DUE FROM/(TO) THE HONG KONG PHILHARMONIC ENDOWMENT TRUST**

The amount is unsecured, interest-free and repayable on demand.

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

**17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES**

The Society's major financial instruments include accounts and other receivables, accruals and other payables, deferred income and cash and cash equivalents. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk and interest rate risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**a) Credit risk**

Credit risk is primarily attributable to receivables from sponsors, the musical tickets receivables from the Leisure and Cultural Services Department and bank balances.

In respect of receivables from sponsors and the musical tickets receivables from the Leisure and Cultural Services Department, the Board of Governors is in the opinion that the credit risk is considered to be low as the counterparties are Government and sponsors with no history of default payment and good reputation.

The credit risk on the liquid funds is limited because the counterparties are banks with high credit rating assigned by international credit rating agencies.

The maximum exposure credit risk is represented by the carrying amount of each financial asset in the balance sheet.

**b) Liquidity risk**

Prudent liquidity risk management implies maintaining sufficient cash and bank balances. In the opinion of the Board of Governors, the Society does not have any significant liquidity risk.

The following liquidity and interest risk tables set out the remaining contractual maturities at the balance sheet date of the Society's financial liabilities based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Society required to pay:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Less than one year:		
Accruals and other payables	4,411,937	3,630,187
Amount due to the Hong Kong Philharmonic Endowment Trust	-	818,240
	<u>4,411,937</u>	<u>4,448,427</u>

**THE HONG KONG PHILHARMONIC SOCIETY LIMITED**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

**17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICES (Continued)**

**c) Cash flow interest rate risk**

Other than the short-term bank deposits which carry interest at market rates, the Society has no significant interest-bearing assets or liabilities. Accordingly, the Society's income and operating cash flows are substantially independent of changes in market interest rates. In the opinion of the Board of Governors, the exposure to cash flow interest rate risk is considered to be low and no sensitivity analysis is performed accordingly.

**d) Foreign currency risk**

Foreign exchange risk arises where future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the Society's functional currency. The Society operates in Hong Kong. In the opinion of the trustees, the Society has minimal exposure to the foreign exchange as the transactions are mainly denominated in Hong Kong dollar and no sensitivity analysis is performed accordingly.

**e) Fair values**

The fair values of cash and cash equivalents, other receivables and other payables are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

**18. FUND RISK MANAGEMENT**

The Society's objective when managing funds are to safeguard the Society's ability to continue as a going concern in order to support the daily operations of the Society and to maintain an optimal structure of funds to reduce the cost of funds. The Society's overall strategy remains unchanged from prior year.

The structure of funds of the Society consists of accumulated surplus and Young Audience Fund. In order to maintain or adjust the structure of funds, the Society may appeal for donations from the Hong Kong Government and the general public.

**19. COMMITMENTS UNDER OPERATING LEASES**

At 31 March, the Society had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<u>2011</u> HK\$	<u>2010</u> HK\$
Office premises and workshop		
No later than 1 year	1,486,608	1,130,556
Later than 1 year and no later than 5 years	<u>182,000</u>	<u>1,127,019</u>
	<u>1,668,608</u>	<u>2,257,575</u>



**THE HONG KONG PHILHARMONIC SOCIETY LIMITED  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 MARCH 2011**

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**20. ACCOUNTING ESTIMATES AND JUDGEMENTS**

**a) Key sources of estimation uncertainty**

In the process of applying the Society's accounting policies which are described in note 2, the Board of Governors has made certain key assumptions concerning the future, and other key sources of estimated uncertainty at year end date, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, as discussed below.

Useful lives of property, plant and equipment

The Society determines the estimated useful lives for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment and investment properties of similar nature and functions.

The carrying amount as at the end of reporting period is HK\$1,988,541 (2009: HK\$2,426,423).

**b) Critical accounting judgements in applying the Society's accounting policies**

In determining the carrying amounts of some assets and liabilities, the Society makes assumptions for the effects of uncertain future events on those assets and liabilities at the year end date. These estimates involve assumptions about such items as cash flows and discount rates used. The Society's estimates and assumptions are based on historical experience and expectations of future events and are reviewed periodically. In addition to assumptions and estimations of future events, judgements are also made during the process of applying the Society's accounting policies.

**21. COMPARATIVE FIGURES**

With a review of financial statements presentation, certain items in the financial statements were reclassified which would result in a more appropriate presentation of events or transactions. Accordingly, certain comparative figures have been reclassified to conform with the current year's presentation.

**22. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2011**

Up to the date of issuance of these financial statements, the HKICPA has issued a number of amendments, new and revised standards and interpretations which are not yet effective for the year ended 31 March 2011 and which have not been adopted in these financial statements.

The Board of Governors of the Society anticipates that the application of the new standards, amendments or interpretations will have no material impact on the results and the financial position of the Society.

(FOR MANAGEMENT INFORMATION PURPOSES ONLY)

THE HONG KONG PHILHARMONIC SOCIETY LIMITED  
STATEMENT OF INCOME AND EXPENDITURE – VENUE PARTNERSHIP SCHEME AND  
OUTBOUND CULTURAL EXCHANGE  
FOR THE YEAR ENDED 31 MARCH 2011

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	Venue Partnership Scheme HK\$	Outbound Cultural Exchange HK\$
<b>Income</b>		
Government subvention	2,163,255	1,700,729
Fund raising activities and sponsors' contributions	-	2,542,374
<b>Expenditure</b>		
Concert expenses	1,813,486	4,170,230
Marketing and audience development expenses	267,397	72,873
Administrative and general expenses	82,372	-
	<u>2,163,255</u>	<u>4,243,103</u>
<b>Surplus for the year</b>	<u>-</u>	<u>-</u>